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HOUSING ELEMENT

CITY OF SAUSALITO

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SAUSALITO HOUSING ELEMENT

GOAL

It is the goal of the City of Sausalito to support the social and economic diversity of the City by promoting safe and affordable housing to all social and economic segments of the community.

KEY ISSUES

Housing is a major issue in Sausalito, as it is in many communities. Skyrocketing housing costs, the reduction of affordable rental units and the growing number of City residents who are "overpaying" for housing are some of the more serious concerns. Public policies set forth in this element help fulfill basic housing needs while balancing these needs with commercial and industrial needs to establish a sound economic/employment base for the City and recreational opportunities for residents.

OBJECTIVES, POLICIES, AND PROGRAMS

The implementation of Sausalito's goal, particularly as it relates to low and moderate income households, requires the adoption of a set of policies which will lead to specific public and private actions. This section sets forth the affirmative steps the City supports to meet its housing objectives.

OBJECTIVE 1: PROVIDE FOR THE PROTECTION AND IMPROVEMENT OF THE HOUSING STOCK

POLICY 1.1: Condominium Conversions. The City of Sausalito will amend its Conversion Ordinance to control the conversion of existing multifamily rental properties with five or more units to condominiums, stock cooperatives or community apartments. Existing rental properties now provide many of the low-income affordable units in the community.

PROGRAM 1.1.1: Condominium Standards. The City of Sausalito will require conversion proposals of five or more units to conform to the following standards:

1. Provide lifetime leases for existing tenants who are age 62 and over. The owners of such units will be entitled to annual rent increases not to exceed the percentage indicated in the most recently completed 12 month period of the San Francisco-Oakland Consumer Price Index for All Urban Consumers, Housing, Rent, Residential, published by the U.S. Department of Labor.
2. Fifteen percent (and not less than one unit) of the units in a conversion will be provided as inclusionary units for persons of low/moderate income as affordable housing in the community with resale controls to assure permanent affordability.
3. Tenants who move at the time of conversion will be reimbursed for moving expenses not to exceed a sum equal to three times the monthly rent in effect at the time.

POLICY 1.2: Housing Rehabilitation. The City will continue to participate in two rehabilitation programs administered by the Marin County Housing Authority, while supporting the creation of a third program.

PROGRAM 1.2.1: The City will continue to participate in the County Rehabilitation Loan Program. This program uses County

Community Development Block Grant funds to subsidize the interest rate on rehabilitation loans. To date one \$36,000 loan to rehabilitate two units has been made in Sausalito. City staff will coordinate with the Housing Authority to facilitate program outreach and City Building Department inspections.

PROGRAM 1.2.2: The City will also work with the Housing Authority to encourage property owner participation in the Section 8 Moderate Rehabilitation Program. This program provides Federal rental subsidies to tenants in newly rehabilitated structures. Subsidized interest rates for rehabilitation financing are available through the County Rehabilitation Loan Program.

PROGRAM 1.2.3: The City will support the creation of a county-wide Marks/Foran program enabling moderate income homeowners to obtain subsidized rehabilitation financing through the sale of local tax-exempt bonds.

OBJECTIVE 2: PROVIDE FOR THE DEVELOPMENT OF NEW LOW AND MODERATE INCOME HOUSING IN SAUSALITO

POLICY 2.1: Site Acquisition. The City will seek to have low and moderate income multi-unit housing units built on selected sites.

PROGRAM 2.1.1: The City will seek to have low and moderate income housing developed on a two acre portion of Martin Luther King School property, which will be surplussed by the School District. The City and School District jointly applied for a \$15,000 grant of CDBG funds for a feasibility study for acquisition of this site. That study is now underway. Possible funding sources for acquisition of this site include County Community Development Block Grant funds and Buck Trust monies administered by the San Francisco Foundation.

PROGRAM 2.1.2: The City will also thoroughly analyze possibilities for the use of City-owned land for multi-unit housing, although very little vacant or underdeveloped City owned land is available. (See Land Availability Section of this Element.)

POLICY 2.2: Non Profit Housing Development Corporation The City will encourage formation of a local, private, non-profit housing development corporation to promote, assist, or sponsor housing for low and moderate income people. Such non-profits in other Marin communities have proven effective mechanisms for gathering community support for affordable housing. Non-profit involvement also helps ensure that community concerns regarding design and management of multi-unit rental housing are met.

POLICY 2.3: Government Programs for Housing. The City will encourage developers to utilize available government programs for development of low/moderate income housing. City staff will work with the Marin County Housing Development Financing Corporation to utilize state and federal housing program funds where available. Present possibilities include: (1) Tax-exempt mortgage funds from the California Housing Finance Agency (CHFA) to enable sale units to be financed at subsidized interest rates (when CHFA's Home Ownership and Home Improvement Loan Program resumes); (2) CHFA tax-exempt mortgage funds for multi-unit rental housing development; (3) Rent subsidies for newly constructed or substantially rehabilitated housing through the Federal Section 8 program; (4) Grants through the State Department of Housing and Community Development's Rental Housing Construction Incentive Program; (5) Pre-development loan funds from HCD for non-profit developers.

POLICY 2.4: Mixed-Use Zoning. City zoning currently encourages residential uses in most commercial areas. The City will analyze the implications of an amendment to the zoning ordinance which

would allow only residential uses on the second and third floors in commercial and industrial zones.

POLICY 2.5: Financial Contributions from Commercial and Industrial Developers for New Low/Moderate Income Housing. The 1970 California Environmental Quality Act (CEQA) requires local governments to evaluate physical effects caused by new industrial and commercial developments. Physical effects include traffic congestion and air pollution caused by long commutes made necessary by the lack of nearby affordable housing. Based on those basic CEQA requirements, the City will request that developers of new commercial and industrial developments will contribute a per square foot fee for the City's affordable Housing Program. These housing mitigation funds will be used to write-down development costs for low-income housing.

POLICY 2.6: Manufactured Housing. State law requires cities to recognize and permit mobile homes/manufactured housing as an affordable housing alternative. City ordinances and regulations permit the placement of manufactured housing on permanent foundations in all single family residential zones.

POLICY 2.7: Waterfront Study. The City's General Plan currently excludes residential use of the waterfront and industrial areas north of El Portal and east of Bridgeway, with the exception of the small community of land-based residences and houseboats at the northern City limits. This goal is consistent with the following waterfront objectives of the City:

- a) To protect the waterfront area and promote diversified water-dependent uses.
- b) To promote the development of the Marinship area with industrial uses and uses compatible with an industrial area.

A City Council-appointed Waterfront Planning Committee recently submitted a study of waterfront development to the Council. The

City is reviewing this report which contained a recommendation that it reconsider General Plan Amendments which would permit limited residential use in the waterfront area, including houseboats.

OBJECTIVE 3: INCREASE THE NUMBER OF AFFORDABLE HOUSING UNITS THROUGH RENTAL SUBSIDIES.

POLICY 3.1: The City will expand participation in the Rebate for Marin Renters Program, administered by the Marin County Housing Authority. This program rebates 25 percent of the rent to the tenant. Rent limits are 120 percent of the fair market rents used by the Federal Section 8 program. Income limits are 80 percent of the Bay Area median income by family size. The City now contributes \$5,000 from its funds. Those funds are matched 2 to 1 by monies from the Buck Trust, making \$15,000 available for a 18 month period from July 1, 1981 to December 31, 1982. Beginning in 1983, the City will increase its contribution by an additional \$5,000 each year. Assuming that Buck Trust funds will continue on a matching basis a total \$60,000 will be available for this Renter Rebate Program in 1985.

POLICY 3.2: City staff will coordinate with the County Housing Authority to facilitate outreach and encourage property owner and tenant participation in the Section 8 rent subsidy program for existing housing.

OBJECTIVE 4: MAKE HOUSING AVAILABLE TO ALL HOUSEHOLDS REGARDLESS OF RACE, COLOR, RELIGION, SEX, FAMILY SIZE, MARITAL STATUS, NATIONAL ORIGIN, OR ANCESTRY.

POLICY 4.1: The City will explore, and take appropriate actions to prevent discrimination in the local housing market.

POLICY 4.2: The City will explore the possibility of participating in a Housing Referral Service. This service will

be directed at locating affordable housing for eligible participants.

OBJECTIVE 5: ENCOURAGE CITIZEN PARTICIPATION IN THE CITY'S HOUSING PROGRAM.

POLICY 5.1: Public Input. The City Planning Commission will hold periodic public hearings and workshops to review and advise staff, Planning Commission, and Council concerning housing issues.

LEGAL REQUIREMENTS

The State of California has established a significant number of legal requirements which relate to housing elements. California state law mandates that every California city and county adopt a housing element in its general plan that, "shall make adequate provision for the housing needs of all economic segments of the community". (Government Code 65302(c))

General plan elements must "comprise an integrated, internally consistent and compatible statement of policies for the adopting agency". (Government Code Section 65300.5) This legal requirement indicates that all elements of the general plan have equal legal status.

In 1977, the California Department of Housing and Community Development (HCD) adopted regulations specifying new housing element guidelines (authorized through Health & Safety Code Section 4134 and Government Code Section 65302(1)). These guidelines are technically "advisory" to local governments. However, Assembly Bill (AB) 2853, passed in 1980, sets in statute all of the requirements contained within the 1977 HCD guidelines. This provision of AB 2853 (Government Code Section 65585) becomes effective October 1, 1981. This bill further establishes that for elements adopted prior to October 1, 1981, an HCD finding of conformity with the 1977 guidelines is a determinant of compliance with the new law (AB 2853).

The 1977 guidelines specify that housing elements address not only the needs of existing and probably future residents, but also a fair share of those market area households "who would live within the local jurisdiction were a variety and choice of housing appropriate to their needs available" (California Administrative Code, Title 215, Section 6418). To this end a fair share allocation plan for the Bay Area has been prepared by

HCD which assigns each locality a responsibility for accommodating the housing needs of a percentage of the low income households in the greater market area. The 1977 guidelines require that communities attempt to address the needs of these households through the programs and policies contained within their housing elements.



In addition to the 1977 guidelines and AB 2853, two additional bills have been adopted by the legislature, AB 2320 and Senate Bill 1960, which affect community housing policy and therefore the content of new housing elements.

Among the provisions of AB 2320 is a requirement that communities zone sufficient vacant land for residential use at "appropriate standards". "Appropriate standards" are defined as "standards which contribute significantly to the economic feasibility of producing housing at the lowest possible cost given economic and environmental factors, the public health and safety, and the need to facilitate the development of housing for persons and families of low or moderate income...." (Government Code Section 65913.1).

Senate Bill 1960 provides that local jurisdictions shall not prohibit the placement of manufactured housing or mobile homes on permanent foundations in single family residential zones. However, it allows for the designation of areas compatible with development of mobile homes and manufactured housing. In addition, communities may impose architectural standards relating to roof overhangs, roofing materials, and siding materials on mobile homes to be installed.

Sausalito's new housing element is consistent with new statutory requirements and reflects a comprehensive attempt to address local and regional needs as limited by market and environmental constraints.

COMMUNITY PROFILE

Sausalito is a wooded hillside community fronting on Richardson Bay in a setting unequalled in the San Francisco Bay Area. This beauty, combined with a central location, has created many pressures not faced by other communities in the region - pressures for high density housing, yachting facilities and tourist activities.

In spite of time and change, much of the City has remained as it was 40 to 50 years ago. "The Hill" is still much as it was shortly after the turn of the century when large land holdings were divided. The most striking changes in the look of Sausalito come from the new apartments and the expansion of waterfront activities and land fill from the Sandspit to Marinship.

Building proceeded at a moderate rate from 1950 to 1960, bringing an increase in population from 4,828 to 5,331. A boom in apartment house construction in the early 1960's brought the population to 6,700 by 1965.

Sausalito has now reached approximately 95 percent of buildout (its maximum residential development potential under City housing policies described in this Element). With the exception of one or two larger sites for multi-unit residential construction, new housing construction will be confined to very small and steep residential sites or in mixed-use non-residential areas.

The problems of Sausalito are summarized herein:

1. Preserving and enhancing the unique meeting of land and water which forms the waterfront.
2. Maintaining the City as a residential community in the face of the increasing influx of visitors.

3. Encouraging the provision of a housing stock geared to the needs of all economic segments of the community.
4. Handling parking and traffic so as to provide convenience for residents while meeting reasonable requirements of business.
5. Promoting a diversity of commercial, industrial, marina-oriented and recreational uses to lessen economic dependence on property taxes and tourist revenues.

Population and Household Characteristics

Sausalito has experienced a 18% population growth since 1970. Today Sausalito is a community of 7,279¹ residents living in 4363 housing units².

Table 1 sets forth the distribution of the ages of Sausalito residents in 1970 as compared to age distribution in Marin County as a whole.

Table 1

1970 AGE DISTRIBUTION SAUSALITO AND MARIN COUNTY

<u>Population</u>	<u>Sausalito</u>	<u>Marin County</u>
Under 15	11.2%	26.6%
15-19	3.4%	8.2%
20-34	40.5%	22.6%
35-55	26.3%	27.2%
55-64	9.6%	8.2%
64+	9.0%	7.3%

The data suggest that compared to Sausalito Marin County in general has significantly more families and children as well as fewer young adults and older persons. Only 45 percent of all households in Sausalito in 1970 were composed of related individuals. Of this number only 1/3 or 490 families had

1. U.S. Bureau of the Census, 1981.

2. Ibid, 1980.

children under 18. By contrast, 75 percent of all households in the County are reported as consisting of related individuals and 56 percent of these households had children under 18. In the County, only 22.5 percent of all households were occupied by single individuals in 1970. This is 32 percent less than Sausalito.

These data correlate with the extremely low mean household size in Sausalito as compared with Marin County. In 1970 Sausalito household size was 1.98. For the County as a whole, it was 2.94. By 1980 Sausalito's household size shrank to 1.76 compared to the total County size of 2.44.

Table 2 presents income distributions for Sausalito households in 1970 and 1980.

Table 2

SAUSALITO HOUSEHOLD INCOME

<u>Household Income</u>	<u>1970 (Census) Percent</u>	<u>1981 (Est.) Percent</u>
Less than \$5000	20.3	11.0
\$ 5000 - \$ 7999	15.5	5.8
\$ 8000 - \$ 9999	10.5	4.1
\$10000 - \$11999	9.1	4.3
\$12000 - \$14999	12.7	7.5
\$15000 - \$19999	13.8	13.4
\$20000 - \$24999	6.5	11.7
\$25000 - \$34999	6.0	18.0
\$35000 - \$49999	3.1	12.0
\$50000 or more	2.7	12.1
 Sausalito median	 \$10,830	 \$21,605
 San Francisco/ Oakland Standard Metropolitan Statistical Area (SMSA) median	 \$ 9,757	 \$21,068

SOURCE: Urban Decision Systems, Inc.

The percentage of low income families (families with annual income 80 percent or less of the Bay Area median figure) increased from 26.6 percent to 34 percent in the past decade¹.

Despite the increase in low income families, Sausalito remains one of the wealthier communities in Marin, a county whose residents have the highest personal incomes in California². A large professional class residing in Sausalito contributes to the high median income figure. In 1970, 49 percent of the City's employed residents held professional, technical or managerial positions.

Sausalito's minority population, like that of Marin County, accounts for a very low percentage of its population. Current ethnic composition for Sausalito is 93 percent white, one percent black, two percent Asian, two percent Spanish origin, and two percent other³.

Housing Stock Characteristics

In 1950 the United States Census reported 1948 dwelling units in the City of Sausalito. By 1960 this number had grown to 2679, by 1970 to 3423, and by 1981 to 4363. Table 3 displays building permit data for 1970 - 1977.

1. The 1970 figure (26.6 percent) is taken from the 1979 Marin County Housing Element. The 1981 figure is calculated from estimated family income data by Urban Decision Systems, Inc. (Data shown in Table 2 are household income distributions.)

2. 1978 State Franchise Tax Board data shows Marin County having the highest median joint return income of any county in the State.

3. 1980 U.S. Census.

Table 3

SAUSALITO BUILDING PERMITS1970-1981

	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981*</u>	<u>TOTAL</u>
Single family units	14	16	20	15	17	5	5	9	11	25	14	18	169
Duplex units	26	32	38	72	10	4	8	6	14	10	0	4	224
Multi-family units (3+)	5	0	25	3	8	4	0	47	159	0	0	0	251
Additional units	<u>3</u>	<u>4</u>	<u>1</u>	<u>4</u>	<u>2</u>	<u>2</u>	<u>3</u>	<u>0</u>	<u>2</u>	<u>3</u>	<u>0</u>	<u>2</u>	<u>26</u>
Sub Total	48	52	84	94	37	15	16	62	186	38	14	24	670
Units eliminated	<u>0</u>	<u>2</u>	<u>2</u>	<u>4</u>	<u>11</u>	<u>0</u>	<u>0</u>	<u>2</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>21</u>
TOTAL	48	50	82	90	26	15	16	60	186	38	14	24	649

* As of 11/1/81.

The high number of permits issued in 1972 and 1973 was a result of construction on the Marina Vista subdivision in the Nevada Street area. Units approved since 1970 escalated the trend towards multiple-unit structures. From 1970-81, 71 percent of new units were either in duplex or multi-family buildings. Only 26 units or four percent of new units since 1970 were units added to existing structures. The relatively high number of multi-family units for which permits were issued in 1977 and 1978 is attributable to the construction of the Whiskey Springs condominium development, which added 203 units to the housing stock by 1980.

Since 1960 there has been a dramatic shift in Sausalito's housing supply from single family structures to multi-unit structures.

Table 4

SAUSALITO STRUCTURE TYPES
1960-1977

	<u>1960</u>		<u>1970</u>		<u>1977</u>	
Single-family	1628	60.6%	1503	44%	1590	42%
Multi-family	1056	39.4%	1905	56%	2162	58%

The number of single family dwellings declined by 125 from 1960 to 1970, while the number of duplex and apartment units increased by 849. Despite the addition of 87 single family dwellings since 1970, the percentage of such dwellings in the City's housing stock has continued to decline. While the single family percentage has decreased in both the City and County, this trend is most pronounced in Sausalito:

Table 5

COMPARISON OF STRUCTURE TYPE
SAUSALITO/MARIN COUNTY

	Sausalito		Marin County
1960	Single-family	60.6%	82.2%
	Multi-family	39.4%	17.8%
1970	Single-family	44.0%	74.0%
	Multi-family	56.0%	26.0%

The Sausalito percentage decreases are indicative of:

1. Emphasis in construction of multi-unit structures.
2. The conversion of single family units to duplex or multi-unit uses.
3. The razing of single family dwellings to make way for other residential and non-residential uses.

Summary data for 1980 regarding types of housing stock are still unavailable. However, City building data indicate that the percentage of multi-family stock has continued to increase.

Sausalito's 1970 median unit size was 4.1 rooms. For Marin County the median size was 5.2 rooms. As Table 6 shows, in 1970 Sausalito had a significantly lower percentage of three, four and five bedroom structures than that of the County.

Table 6

1970 BEDROOMS PER UNIT
SAUSALITO AND MARIN COUNTY

<u>Number of Bedrooms</u>	<u>Sausalito</u>		<u>Marin County</u>	
		%		%
None	170	5.3	1670	2.4
1	1242	38.5	11350	16.0
2	1326	41.1	20206	28.4
3	330	10.2	24282	34.3
4	135	4.2	11010	15.5
5+	23	.7	2397	3.4

In 1970, 85 percent of the City's housing had 0-2 bedrooms. In the County only 47 percent of all dwelling units were within this category. The percentage of units with 3 bedrooms was only 10 percent of Sausalito's housing stock while it comprised 34 percent of the County's. Since most Sausalito construction since 1970 has been multi-unit, the 1980 percentage of 0-2 bedroom units probably remains very high. The preponderance of small units also explains Sausalito's extremely small 1980 mean household size of 1.76, discussed earlier.

Due to the limited availability of units with three, four or more bedrooms in Sausalito, such units have a high owner occupancy rate. In fact, the 1970 Census reported that all housing units with four or more bedrooms were owner-occupied.

Sausalito has had for the past several decades fewer owner occupied than renter occupied housing units. In 1970 the owner occupancy percentage was only 34 percent. Sausalito has a significantly lower proportion of owner occupied units than any other Marin municipality. In 1970 the owner occupancy percentage for the County was 61 percent.¹ Sausalito's owner occupancy percentage may have increased somewhat in recent years, since almost all new multi unit structures were built as or converted to condominiums. Condominiums, however, are frequently rented.

1. U.S. Bureau of the Census, 1970.

THE HOUSING PROBLEM

A clear understanding of Sausalito's housing needs and problems is essential to develop appropriate city policies and effective housing strategies.

The present problems of City residents are examined from the standpoint of affordability, habitability (i.e. condition of stock), and overcrowding.

Future needs projections are based upon: (1) the estimated demand for market rate housing in Sausalito over the next five years; and (2) the City's responsibility to meet regional needs as reflected in the Fair Share Allocation Plan prepared by HCD. Anticipated population growth, new household formation, employment opportunities and the probable amount and type of new development are used as indicators of future demand. The special needs of the elderly, the handicapped, and minorities are also addressed in accordance with state housing element guidelines.

PRESENT PROBLEMS

The Affordability and Availability of Housing

The City of Sausalito, like most Bay Area communities, does not provide an adequate mix of housing affordable to low and moderate-income residents and workers. Although approximately 55 percent of Sausalito families have low and moderate incomes (below 120 percent of the median family income), a decreasing number of housing units are affordable to buy or to rent. Rental housing units are not being constructed, in good part due to extraneous factors of high financing, construction and land costs. Consequently, low and moderate-income households are priced out of the housing market. The increases in housing costs are expected to continue to exceed the growth in personal income

during the 1980's. Table 7 shows that Sausalito's surge in the price of single family homes has outpaced that of the County as a whole.

Table 7

AVERAGE PRICE OF SINGLE FAMILY RESIDENCE SALES¹
(Includes Single Family Detached and Condominiums)

	1976		1977		1978		1979		1980		
	<u>#</u> <u>Sold</u>	<u>Average</u> <u>Price</u>	<u>#</u> <u>Sold</u>	<u>Average</u> <u>Price</u>	<u>#</u> <u>Sold</u>	<u>Average</u> <u>Price</u>	<u>#</u> <u>Sold</u>	<u>Average</u> <u>Price</u>	<u>#</u> <u>Sold</u>	<u>Average</u> <u>Price</u>	<u>Increase</u>
Sausalito	115	93,020	106	112,570	112	129,980	118	176,835	80	214,614	131%
Marin County											
Average	4,063	74,635	3,666	97,615	3,921	108,730	3,648	137,925	2,120	168,508	126%

1. Marin County Board of Realtors.

A family purchasing an average home in Sausalito in 1976 could readily obtain a mortgage at a 9.5 percent interest rate. Assuming a 20 percent down payment, mortgage payments for the median priced \$93,020 home equalled \$634 a month. The minimum qualifying income for such a mortgage was \$25,360.¹

A family attempting to buy in Sausalito in 1980 was confronted with an average sales price of \$214,614 and prevailing interest rates in excess of 14 percent.² To qualify for a 14 percent mortgage with \$2,038 monthly payments, a minimum household annual income of \$81,527 would be required. In only four years, the minimum income necessary for a first-time buyer to purchase an average home in Sausalito increased over 221 percent. Subsequent purchasers could of course utilize the equity from the sale of a previous home towards a new purchase.

This comparison highlights the impact of escalating prices and high interest rates. In fact, however, few purchases were made in 1980 using conventional financing. Rather, sellers financed portions of the purchase, and/or existing lower rate mortgages were assumed, resulting in somewhat more affordable housing. Prospective legislation threatens to restrict "creative financing" based upon the assumption of existing mortgages, however, and increasing numbers of potential buyers may be prevented from purchasing homes.

The 1980 average sales price of \$214,614 is far higher than the price low and moderate income families can afford to pay given

1. Assumptions: Typical lender underwriting criteria would require that mortgage payments not exceed 30 percent of gross income. A 30-year mortgage term is assumed.

2. As of October, 1981, prevailing interest rates are in excess of 18 percent. This rate is not expected to drop more than two or three points for the next few years.

prevailing interest rates. A "moderate income" family of four with an annual income of \$28,080 can only afford a home priced at \$69,375 or less. First-time low income families with an annual income of \$18,720 find it impossible to become owners of market-rate housing, as they can afford to pay no more than \$46,250.¹ Potential buyers are affected more than resident homeowners who tend to benefit from the appreciation of their homes.

Programs providing housing assistance to Bay Area low (less than 80 percent of Bay Area median annual family incomes) and moderate (80 to 120 percent of Bay Area median annual family incomes) income families require establishing income limits on the basis of family size. HUD derives and annually revises median annual income estimates according to family size for the purpose of determining federal program eligibility. The HUD estimate of Bay Area (SMSA) incomes as of July 1, 1980, is presented in Table 8.

1. Assumptions: (1) Mortgage payments may not exceed 30 percent of gross incomes. (2) An 80 percent loan to value ratio producing mortgages of \$55,500 and \$37,000. (3) Loans have a 15 percent interest rate and are amortized over a thirty-year term.

2. U.S. Department of Housing and Urban Development estimate, July 1, 1980.

Table 8

BAY AREA LOW AND MODERATE INCOME FAMILY
INCOME LIMIT SCHEDULE*
JULY 1, 1980

<u>Persons In</u> <u>Family</u>	<u>Low Income</u> <u>Ceiling (80%</u> <u>of Median)</u>	<u>Median</u>	<u>Moderate Income</u> <u>Ceiling (120%</u> <u>of Median)</u>
1	\$13,100	\$16,400	\$19,680
2	15,000	18,700	22,440
3	16,850	21,100	25,320
4	18,700	23,400	28,080
5	19,900	25,300	30,360
6	21,050	27,100	32,520
7	22,250	29,000	35,800
8	23,400	30,900	37,080

* It should be noted that a large number of statisticians and social scientists dispute the methodology employed by HUD to derive these estimates and argue that they are low, particularly for smaller households. In particular, see "Housing Affordability Programs and HUD's Estimates of Median Family Income," California Council for Environmental and Economic Balance, March 1980.

1981 Income Limits not yet issued by HUD as of October, 1981.

Rents have increased as fast as home prices in Sausalito. In 1970 the median Sausalito rent was \$188 per month.¹ The current median rent is approximately \$550 per month, a 293 percent

1. U.S. Bureau of the Census.

increase¹. Median household incomes have increased only 99 percent during this same time frame. This increase reflects the low rents in 1970, higher mortgage and operating costs and the shrinking supply of rental housing in Sausalito.

Since 1973, 569 rental units have been or will be converted to condominium units². Current data on the percentage of those condominium units which are rented or the percentage of rental households in Sausalito are unavailable. However, the giant jump in rents and the extremely low vacancy rate indicate that the supply of rental housing in Sausalito has slightly decreased relative to demand during the past decade. An estimated multi-family vacancy rate ranges from 1.6 to .1 percent in Sausalito. in September, 1980³.

Renters receive none of the benefits of home price appreciation. In 1970, 927 low income households paid more than 25 percent of their income for rent⁴. Although comparable 1980 data breakdowns are not available, a comparison of renter income data with prevailing local rents suggests that over half of

1. Rents in larger apartment projects in Sausalito were sampled and analyzed by Lynn Sedway & Associates to estimate the current median rent in the City.

2. Data supplied by the City of Sausalito Planning Department.

3. "Marin County Housing Vacancy Survey", Federal Home Loan Bank Board, September 1980 showed a .1 percent multi-family vacancy rate. In September 1979 the State Department of Finance estimated the vacancy rate for all situations at 1.6 percent.

4. 1970 Census Data.

Sausalito's approximately 2600 rental households may now be paying more than 25 percent of their gross income for housing¹.

Housing Rehabilitation Need

Sausalito's housing stock is generally in good condition, although it is much older than that of Marin County as a whole. According to the 1970 Census, 44 percent of Sausalito's housing was constructed before 1940. Only 22 percent of the County's housing was built prior to that time.

There have been no housing condition surveys in Sausalito during the past ten years. In 1971 the County survey of 40 percent of the stock in Sausalito's oldest neighborhoods found 11.6 percent of the units to be "substandard"². Since demand for Sausalito housing has remained strong in the past few years, the market has accomplished most rehabilitation on its own. The City Building Inspector estimates that approximately one percent of the City's housing stock now needs rehabilitation. If much of the older housing in Sausalito is to be maintained, serious consideration must be given to:

1. The update of electrical wiring;
2. Replacement of substandard foundations;
3. Improvement of plumbing facilities;
4. Modernization and ventilation of heating plants.

However, low and moderate income homeowners in the City may find it prohibitively expensive to finance the periodic maintenance of

1. State Franchise Tax Board data on adjusted gross income for individual returns claiming the renters credit for 1976. The distribution of incomes, updated by the CPI, cannot be correlated with rents paid, and, therefore, a precise derivation of the number of overpaying households is impossible. A family with an annual income of \$18,720, 80 percent of the HUD derived median family income, can afford to pay \$390 per month for rent.

2. Marin County Housing Condition Survey, 1971.

their homes. Eventually, the proportion of substandard housing occupied by low and moderate income households may increase as a result of deferred maintenance. These homeowners may sell their homes if they cannot afford needed rehabilitation. While this would improve the condition of the housing stock, the original homeowners would probably be displaced from southern Marin.

Replacement Housing Need

None of Sausalito's conventional land-based housing needs replacement. Depending upon the City Council's review of Waterfront Planning Committee recommendations, there may be a need for approximately 85 units of housing to replace waterfront housing now occupied by low income households. This replacement need figure is estimated from results of a survey just completed by the Art Zone organization. This need figure is subject to change by the City. The survey found 129 households with a mean household size of 1.8 living east of Bridgeway (excluding boats in stable marinas). The 129 households now live in houseboats and other floating crafts, as well as land-based industrial/commercial structures.¹

Overcrowding

Overcrowding (units with more than one person per room) is not a significant problem in Sausalito. In 1970, only 79 units were

1. Data in the Art Zone survey have not yet been reviewed or accepted by the Sausalito City Council. The City did not participate in the design of survey methodology; nor did the City monitor the survey process or data analysis. In addition, survey analysis and methodology are still being reviewed by a consultant to Art Zone.

The 85 unit figure is an estimate from the Art Zone survey which includes estimated income data for 37 non-responding households for which income data is not available.

found to be overcrowded¹. Despite the severe housing problem in the County, the decline in the City's average household size between 1970 and 1980 makes it unlikely that overcrowding has increased.

PROSPECTIVE NEEDS

Population Growth - Population growth in Sausalito is a product of new residential development and changes in household size.

- o New Development - The rate of new residential development in the past few years slowed considerably from that experienced in the late sixties and early seventies. The future rate of population increase will slow considerably over the next few years since the City now approaches buildout.

Permit approvals for an additional 24 single family and condominium units on scattered sites have been granted through September, 1981.

An additional 100-150 units, including potential multi-unit developments on publicly owned sites, might be constructed, if various financial and site constraints can be overcome.

Thus, an approximate total of 125-175 new units is projected to be developed in the City between 1981 and the end of 1985.

- o 1985 Population - Occupancy characteristics relevant to population project for Sausalito are vacancy rates and average household sizes. The strong regional demand for housing should prevent vacancy rates for both owner-occupied and rental units from rising much above present very low levels. Population projections made by the Association of

1. U.S. Bureau of the Census, 1970.

Bay Area Governments indicate that the present average household size should remain stable over the next five years.

Population increases within Sausalito may be projected by multiplying anticipated new single and multifamily units by the estimated household size for each category.

Table 9

1985 SAUSALITO POPULATION

<u>Development Category</u>	<u>Housing Units</u>	<u>Household Size</u>	<u>Average Occupancy Rate</u>	<u>Population</u>
1981	4,377	1.76	.984	7,279
New Single Family Units	25	1.76	.984	43
New Multifamily Units	150	1.76	.984	<u>258</u>
Anticipated 1985 Sausalito Population				7,580

New Household Formation

The number of new households in Sausalito may be estimated by multiplying the anticipated number of new units by the expected occupancy rate of 98.4 percent. Using this method, approximately 172 new households are anticipated to be formed by 1985.

Most of the new households may be expected to have two incomes with at least one family member who holds a professional or executive job. These income earners will typically be in their peak earning years and be California homeowners seeking to "trade up" to a more desirable residential environment.

Employment Growth

The need and demand for housing in Sausalito will be increased by job creation in San Francisco, the Marin County urban corridor, and within Sausalito itself.

The expansion of office employment in San Francisco is expected to continue at its present rapid pace over the next few years. Approximately 10 million square feet of new commercial space is expected to be developed within San Francisco's central business district alone by 1985. The Association of Bay Area Governments (ABAG) estimates that 41,447 new jobs will be created in San Francisco between 1980 and 1985, and that only six percent (2,342) of these will be held by San Francisco residents.¹ This growth in employment will be expected to further increase the strong demand for housing in Sausalito.

Economic growth within the County's urban corridor should be moderate. High housing costs have played an important role in restraining economic development in Marin County. The regional economic boom of the late 1970's registered only a marginal impact on Marin. An important factor limiting the impact of employment growth on both housing need and demand is that many of the new jobs will be filled by secondary wage earners.

Table 10 lists the major job inducing projects scheduled for development in the Marin County urban corridor.

1. "Projections 79", Association of Bay Area Governments, page V-20.

Table 10

EMPLOYMENT GROWTH IN THE SOUTHERN
MARIN COUNTY URBAN CORRIDOR

<u>Project</u>	<u>Anticipated New Jobs</u>
Sausalito	
One Harbor Drive	350
Deak Office Park	375
Schoonmaker Point	575
Miscellaneous Developments	350
Mill Valley	
Alto Center Annex	15 - 35
Shelter Point Project	100 - 125
Urban Project	10 - 20
Larkspur	
Bon Air Center	500 - 530
Gamma Project	120 - 130
Creekside Project	80 - 90
Corte Madera	
The Village at Corte Madera	
(Hahn Retail and Commercial Develoment)	870
Corte Madera Center Expansion	450
Park Place Development (Office and Industrial Portions)	<u>170</u>
TOTAL	3,965 - 4,070

Fair Share Allocation

The recognition that a City's policies have regional as well as local implications serves as the basis for California's "Fair Share" allocation process. The California Department of Housing and Community Development (HCD) has established a method to determine what percentage of regional low income households a given community is to be responsible for housing by 1985. HCD's methodology takes into consideration factors such as present levels of low income residents, housing market conditions, access to employment, and the ability of a community to alter present conditions.

The Department has determined that Sausalito should expand its percentage of housing affordable for low income households to an ultimate 34 percent of the entire housing stock.

The City of Sausalito understands its regional responsibilities. It encourages the development of low income affordable housing while recognizing the severe physical and financial constraints that limit the number of new units that can be produced. Table 11 details the estimated level of unmet need that the City must attempt to accommodate by 1985.

Table 11

EXISTING NEED WITHIN SAUSALITO*

<u>1985 Fair Share Allocation (HCD)</u>	<u>Existing Market Rental Units Affordable to Low Income House- Holds in 1985</u>	<u>Existing Ownership Units Owned by Low Income Households in 1985</u>	<u>Subsidized Units</u>
1523	235	465	5

TOTAL UNMET NEED

898 Units

(including 85 replacement units
discussed on page 28)

* See Appendix A, "Fair Share Technical Notes" for a discussion of the methodology employed.

Unmet need may be further categorized into the needs of elderly, family and large family households. HCD recommends multiplying the total unmet figure by the percentage of each household type that exists among low income households in the Bay Area. Table 12 presents the level of unmet need for each category that the town is responsible for meeting.

Table 12

CATEGORIES OF UNMET NEED

Low Income Elderly	898	x	.36	=	323
Low Income Large Families	898	x	.11	=	99
Low Income Families	898	x	<u>.53</u>	=	<u>476</u>
			1.00		898

Fair Share Targets

Sausalito will attempt to meet three percent of this housing need annually. Table 13 presents the annual fair share target for the City.¹

Table 13

SAUSALITO FAIR SHARE TARGETS

<u>Fair Share Allocation</u>	<u>Met Need</u>	<u>Residual Need</u>	<u>Annual (3%) Target</u>
1523	620	898	27

The City recognizes that the market, economic and program constraints will prevent it from fully meeting its level of housing need as estimated by HCD. The almost total lack of developable land for residential uses and extremely high rents and housing values in Sausalito make a 3 percent target difficult and a 5 percent target impossible to achieve. (The shortage of undeveloped land is discussed in the "Housing Constraints" portion of this element.)

Special Needs

The 1977 HCD guidelines encourage communities to analyze special needs of the elderly, minorities and the handicapped. This section summarizes available information on the needs of these groups.

1. The 1979 Marin County Housing Element identifies an appropriate annual target range as 3 to 5 percent of the residual need. The 3 percent target is appropriate for Sausalito, given constraints discussed in the following section.

- o The Elderly - The 1970 Census counted 578 persons age 65 and over in Sausalito. The most recent data on the needs of elderly residents in Sausalito comes from a special survey by City staff in June, 1979. The survey did not produce statistically valid data on owner occupancy for the elderly or the percent of income paid for housing because the number of respondents was too small. However, survey results provide an indication of elderly housing needs.

Seventy-six percent of the respondents owned their homes. One-half of the respondents paid 25 percent of their income or less for housing.

- o Minorities - Sausalito's minorities represent less than seven percent of the City's population. Although current income and housing data related to the City's minorities are unavailable, it appears that the housing problems of local minorities tend to be those of community residents in general.
- o The Handicapped - There is no current information on the number of disabled residents in Sausalito. A 1977-78 study by the California Department of Rehabilitation reported that 9.2 percent of Marin households included at least one disabled resident. The hilly terrain of Sausalito residential districts places practical limitations on opportunities for many handicapped persons to live in Sausalito. Therefore, the percentage of Sausalito residents who are mobility handicapped is probably considerably less than the percentage for the County as a whole.

ENERGY CONSERVATION OPPORTUNITIES

Affordable energy is an essential component of affordable housing. Energy costs to the consumer have increased 100 percent over and above inflation since 1970 while crude oil prices have increased more than 500 percent. Houses built after 1975 use about half as much energy as a result of California State conservation standards. Houses built after January 1, 1982 will use about 25 percent of the energy used by pre-1975 houses due to an updating of the standards.

For new housing, then, state conservation standards, implemented as part of the Building Code, substantially reduce the cost of energy for homeowners. The updated standards rely on solar heat gain through south-facing glazing and on heat storage in the mass on the structure (i.e. passive design) to reduce energy use. For these measures to be most effective, the south-facing glazing and heat storage mass should be located in major living areas (i.e., living room, dining room, family room, and/or kitchen). In addition, the south-facing glazing must receive direct sunlight for at least four hours on a winter day (i.e., solar access).

The City may adopt a number of measures to protect solar access. At the same time a structure or addition to an existing structure is evaluated for provision of solar access to it, it can also be evaluated to ensure that it does not block the solar access of neighboring structures.

Since Sausalito is largely built out, there is even more opportunity for energy savings in existing housing than in new construction. Most residential structures can be retrofitted with conservation measures that provide nearly the savings achieved in recent new construction. Many can also be retrofitted with passive design measures, e.g. the addition of a solarium or south-facing windows in conjunction with a heat storage mass. The City will consider the adoption of a "retrofit

ordinance" consistent with the ordinance prepared by the County to require the installation of minimal conservation measures, i.e. ceiling insulation comparable to state standards, a water heater blanket, weather-stripping and caulking, at the point of resale.

HOUSING CONSTRAINTS

Economic conditions and government policies serve to limit the development of affordable housing. This section analyzes market and regulatory constraints and assesses how their impact effects the amount, cost and type of housing that may be built in Sausalito.

Market Constraints

Primary market factors include the levels of effective demand for rental and ownership units, the availability of developable land and land, construction and financing costs.

Excess Demand in Relation to a Limited Supply

Aggregate demand for housing in Sausalito and Marin County as well as the entire Bay Area have strongly increased during the 1970's, resulting in the significant price increases discussed in the Housing Problem Section. The growth of jobs locally and in San Francisco, the desirability of Sausalito as a place to live, and the increase in the number of households seeking shelter represent the major components of aggregate demand. The Bay Area is the most expensive housing market in the country, and Marin County is one of the most expensive areas in the region, with a current estimated average sales price of \$175,000 for a house. The fact that houses continue to sell for these prices evidences a strong effective demand among higher income groups, including foreign investors.

Supply of Land

There is almost no remaining developable land in Sausalito. Such severe availability constraints preclude discussion of suitability standards for non market and manufactured housing,

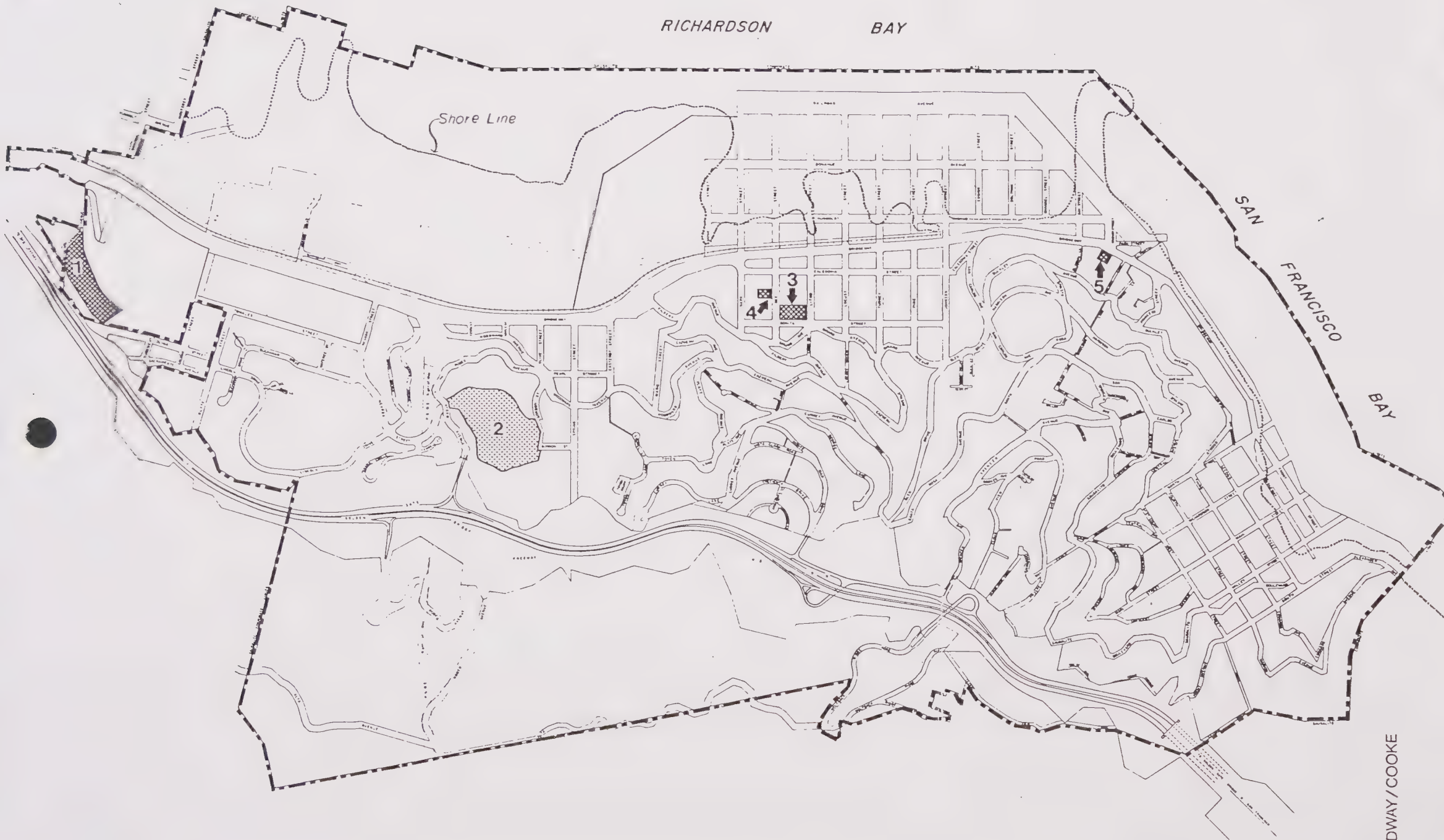
since such a discussion assumes a choice between several available sites. Sausalito has no choices, as the following vacant site discussion indicates.

A theoretical developable potential of 191 units exists for vacant residentially zoned parcels in the City. This theoretical figure is derived by computing maximum allowable density for parcels identified as vacant on the Assessor's records. With three exceptions, all of these sites are far too small or too steep for development of multi-unit housing. Two of the three remaining sites might accept 10-12 units each. However both have severe slope constraints, which make even very high cost housing only marginally feasible at best. The third site, which would carry approximately 15 units, is in a high density commercial area. A developer currently proposes a commercial development on the site, with rezoning required.

Careful analysis of publicly owned sites for possible residential rezoning and development potential yields some limited possibilities. These sites are mapped on Figure 1 on the following page.

- o Martin Luther King School - As discussed in the Objectives Section of this Element, the City and School District are working together to free a portion of this site for multi-unit housing. The feasibility study now underway will determine the number of units feasible for the 1.6 acre site. A rough estimate is 30-40 units.
- o Civic Center parking lot - This approximately half acre site behind the Civic Center might be developed with a small number of housing units above parking. A rough unit count is 8-12 units.

Figure 1 Affordable Housing Sites



-  HIGH DENSITY
(14+ DU/Ac.)
-  MEDIUM DENSITY
(7-13 DU/Ac.)

1. Surplus portion of Martin Luther King School 1.6 Ac.
2. Cypress Ridge 6-7 Ac.
3. Civic Center 0.5 Ac.
4. Bee Street 0.2 Ac.
5. Second Floor, Old City Hall

Graphic Design: SEDWAY/COOKE

Sausalito Housing Element

LYNN SEDWAY & ASSOCIATES



- o Bee Street lot - This 50 x 120 foot lot site might carry three to four units.
- o Old City Hall Redevelopment - The second floor over commercial might be converted from commercial to four or five small senior citizen housing units.

Two other publicly-owned sites appear physically feasible for multi-unit housing. However, they are presently scheduled and zoned for park development. Rezoning would pose severe legal constraints. In one case the property was acquired for open space by voter-approved general obligation bonds. It could be rezoned by referendum after retirement of the bonds. The City Council will re-open the public discussion of use of this site for housing, since other opportunities for affordable housing are so limited. After voter approval, outside funding, such as Buck or CDBG monies, could be sought to pay off the bonded indebtedness on the property.

The other site was deeded to the City for one dollar by the Federal Government on the basis that it be developed exclusively as a park. It is near the waterfront in an area presently precluding housing.

Each of the four sites mentioned would meet site selection criteria used by State and Federal Agencies. (See Appendix D for HUD Site and Neighborhood Standards.) Although the school site location is slightly more remote than the others, it is still accessible to commercial services and recreational amenities. All necessary public infrastructure is in place for each of the sites.

Land Costs

The almost total lack of vacant land in Sausalito makes an extended discussion of Sausalito land costs somewhat useless. Such limited availability also distorts analyses of land costs, since comparables are hard to identify. Interviews with developers indicate that the raw land cost for a buildable multi-family site is now approximately \$400,000 per acre.

Undeveloped or "raw" land costs vary from site to site depending upon site preparation costs (clearing and grading), slope and soil factors, and locational amenities such as access to public services, views, and neighborhood characteristics. Land costs per square foot also increase when allowable densities are greater. However, this increase in land costs is rarely proportional to the greater density permitted. For this reason, land costs per unit tend to be lower for multi-family residential construction than for single family homes.

Land costs as a percentage of total development costs have been rising in the past few years. Traditionally, land costs equalled about 25 percent of total costs. Today, figures in excess of 40 percent are not uncommon.

The full cost of land for a residential project includes, project approval costs, as well as the "raw" land purchasing and financing costs. The land subdivision and permit approval process is time consuming and may be extremely expensive if the site has been purchased and financed prior to its completion. For this reason, sales prices for land with permit approvals are considerably higher than those for raw acreage.

Construction Costs

The costs of constructing wood frame housing rose 169 percent between 1975 and 1980¹. Lumber, concrete and labor costs have risen the most rapidly. Costs for wood frame single family detached homes in 1981 ranged from \$55 per square foot for minimum amenity styles to more than \$80 and up per square foot for high quality units. Total construction costs are therefore capable of ranging between \$55,000 for a modest 1,000 square foot unit to well over \$200,000 for a 2,000 square foot luxury home.

Construction costs of apartments and condominium units in low-rise wood frame buildings lie within this range as well. While modest studio units may be built for as low as \$45,000 a unit, excluding land; more attractive family sized units usually exceed \$100,000 to produce.

High construction costs constrain housing maintenance and rehabilitation as well as new construction, especially for low and moderate income homeowners.

Financing

In recent years high interest rates have played a critical role in making housing unaffordable. High land and construction financing costs have made the housing development business inherently more risky. Developers in turn need to realize higher returns to justify associated risks. Higher required profits as well as costs push up eventual sales prices.

In addition, the home buyer is confronted with the highest mortgage interest rates on record. A major problem is qualifying

1. Equivalent to an annual compounded rate of 11.1 percent. F. W. Dodge Construction Cost Services.

for loans at high interest rates. Table 14 charts how monthly mortgage payments differ for a \$100,000 mortgage made at varying interest rates.

Table 14

MONTHLY PAYMENTS - 30-YEAR \$100,000 MORTGAGE

<u>Interest Rate</u>	<u>Payment</u>
9%	\$ 805
11%	\$ 952
13%	\$ 1,106
15%	\$ 1,264
17%	\$ 1,426

Furthermore, the former trend towards restructuring mortgage instruments to facilitate borrowing is now reversing itself. Government credit regulators now feel it necessary to shift some of the risk of lending back towards borrowers. The new variable rate mortgages with negative amortization provisions are just one example of the new, harsher world of credit faced by prospective homebuyers. Traditional fixed payment mortgages will be rare and the interest rates at which they will be offered will remain high, and their amortization periods may shorten. Future financing terms are therefore likely to make housing even less affordable than at present.

Second mortgages to finance home maintenance and improvements are more costly than first mortgages. In October, 1981, interest rates for second mortgages in Marin County range from 18.5 percent to 19 percent plus points, with 5-15 year terms. Such financing costs make rehabilitation loans infeasible for all but the most affluent property owners. Therefore, rehabilitation must be funded with savings, or deferred.

Governmental Constraints

Government policies and procedures affect the supply and cost of housing. Land use controls, such as zoning, have the greatest direct impact; but development approval procedures, permit fees and building codes affect housing costs as well. This section assesses the City's present policies to its ability to address unmet housing need.

Land Use Controls

As discussed earlier, Sausalito has permitted much high density multi-family development during recent years. Sausalito's steep slopes have slowed new housing development much more directly than have zoning and land use controls. In addition, the very strong market demand for housing has pushed the City into maximum density development.

Development Standards

Sausalito encourages developers to submit proposals reflecting high architectural standards. To this end it has established a Community Appearances Advisory Board to assess new construction design and additions and renovations to duplex and multi-family structures. This procedure has helped to assure quality development within the City. High design standards can increase construction costs and may conflict with the economics of low and moderate income housing development and rehabilitation.

An additional factor increasing building costs and limiting densities has been the City's parking requirements. Single family units must be accompanied by two spaces. Multi-family parking requirements vary according to the number of bedrooms per unit. A condominium project of 20 two bedroom units, for example, must provide 40 parking spaces. These standards may need

re-examination from the standpoint of their effect on the development of affordable housing, especially in mixed-use areas.

Cost of the Local Permit Process

Costs associated with the permit process may act as a constraint to the development of affordable housing. Line item permit costs are related to processing inspection and installation services. They are limited by California law to the cost to the various agencies of performing these services. Appendix B details these costs, which generally range between 3552 and 3758 per dwelling unit.

Costs associated with the time it takes to go through development review and building permit processing are more significant. These costs are highly variable and are related to developer overhead, financing and start-up costs, as well as the length of the development review and permit processing period. It has been estimated, however, that on average each year of processing raises construction costs an additional 18 percent¹.

Single family custom home applications generally take less time to review than multi-family proposals. When proposed single family developments are not subject to special environmental constraints and are in conformity with existing zoning, it is possible to process the required building permits in two months.

In practice, most major multi-family projects now require EIR's, public hearings and design review. The total length of time from the initial developer contact with local officials to final map and approval in Sausalito is six months, a relatively short time period.

1. "Housing Cost Reduction Demonstration", U.S. Department of Housing and Urban Development, December 1980.

Federal Policy Constraints

Federal Policy affects the development of housing for all economic segments, but it affects the development of low income housing most directly. The usefulness of these Federal subsidy programs is limited by the amount of funding available. In 1979, a total of 755 Section 8 Existing Housing units were available for all of Marin County. For the Section 8 New Construction Program, 313 units were available for a four county North Bay allocation area. During 1976-79 only 167 Section 8 "new" units, out of a total of 886, were awarded to Marin County, as a result of HUD's competitive allocation system. The problem of a limited amount of funding is compounded by the difficulty of implementing the Section 8 New Construction Program in Marin County. The two primary reasons for this are:

- o Fair Market Rents: HUD establishes the maximum rents on the basis of an analysis of the area-wide housing market. Occasionally, in areas like Marin, where prices are escalating rapidly and the vacancy rate is very low, actual market rents exceed the maximum limits established by HUD, creating a disincentive to participate in the program.
- o Maximum Development Costs: For new construction of subsidized housing, HUD generally awards funds to lower-cost projects. Projects with high land and construction costs are less competitive from this cost standpoint, as well as often economically infeasible for the developer. To be successful, a proposed Marin County project requires a significant land cost write-down with other subsidy funds, such as the Community Development Block Grant Program.

The present administration has reduced federal expenditures for subsidized housing, including the Section 8 rent subsidy

program. A large number of lesser used but equally workable federal housing development and conservation programs are to be cut back as well.

An important technique that has been used to make the construction and purchase of housing possible during the recent period of high interest rates has been the use of tax-exempt bond financing. The passage of the Mortgage Subsidy Bond Tax Act of 1980 severely limits the future applications of this technique. Although the law's strictures will not greatly affect the use of tax-exempt financing for the development of multi-family rental housing. The provisions of federal and state law place price and income limitations on single family mortgage revenue bond issues, thereby making their implementation difficult in Southern Marin.

Article 34 Referendum Requirement

By requiring referendum approval of all low rent housing projects "developed, constructed, or acquired in any manner" by any state public body, Article 34 of the State's Constitution poses an obstacle to the delivery of housing suited to the needs of lower income households.

In general, Article 34 applicability depends on three criteria. First, a state or public body must be involved in the project. Private sponsors developing low rent housing projects with federal or private money, for instance, are not subject to Article 34. Second, the State or public body must develop, construct or acquire the project. Public agencies which lease low rent housing (as in the HUD Section 23 program) are not covered by Article 34. Section 8 new construction developed by a private developer is also exempt, depending upon the degree of involvement of state agencies. The third requirement is that the project be a low income rental development. The development of mixed income rental housing which is not 50 percent or more low income has been held by California courts not to require a referendum.

Recent State legislation (AB 1092) affirmed the above analysis, and exempts from the referendum requirement the following types of projects:

- a) Privately owned housing which is less than 50 percent low income rental;
- b) Privately owned housing which is not financed or subsidized by a State or local public agency;
- c) Cooperative housing, and any other type of owner-occupied housing;
- d) Newly constructed, privately owned one-to-four family dwellings not located on adjoining sites (Government Code Section 37001).

The Effect of Market and Government Constraints on Development

Cost and interest rate increases have placed the price of new homes beyond the reach of most Bay Area households.

The typical price at which conventionally developed and financed Sausalito single family home may be marketed in 1981 may be summarized as follows:

Table 15

ESTIMATED SALES PRICE COST BREAKDOWN FOR A NEW
STANDARD QUALITY SINGLE FAMILY HOUSE
IN SAUSALITO: (1981)

	<u>Dollar Cost</u>	<u>Percent of Total Sale Price</u>
1. Raw Land (unimproved lot)	\$100,000	44.3
2. Off-site Costs	8,500	3.8
3. City Permits & Fees	2,000	.9
4. Construction Costs \$70/sq. ft. x 1200 sq. ft.	84,000	37.2
5. Financing Costs (sum of 2, 3, 4, at 18% for 6 mos.)	8,505	3.7
6. Overhead & Profit (15%) (sum of 2-5 x 15%)	15,450	6.9
7. Sales & Marketing (6%) (sum of 2-6 x 6%)	<u>7,107</u>	<u>3.2</u>
TOTAL SALES PRICE	\$225,562	100.0%

It is not possible to produce entire developments of single family detached housing for owner occupants at prices affordable to moderate income families. Moderate income families can typically afford to pay no more than \$70,000 for a home. Thus, units offered "at cost" remain beyond their means.

The minimum cost and price for a higher density 1,000 square foot condominium unit exceeds the moderate income family's affordable price, shown in Table 16.

Table 16

TYPICAL CONDOMINIUM DEVELOPMENT COSTS

Hard and soft construction costs	\$65,000
Construction loan interest ¹	4,000
Land cost	25,000
Land financing ¹	<u>2,700</u>
 TOTAL COSTS	 \$96,700
 15% DEVELOPER PROFIT	 <u>10,755</u>
 CONDOMINIUM PRICE	 \$107,455

It should be noted that the condominium price is based upon an assumption of minimal approval period and is for modest units not typically constructed in Marin today.

Project sponsors have developed a strong economic motivation to build more expensive units of higher quality in the past due to high land and site development costs. Prices commanded for such housing reflect high profit margins that cannot be matched by profits from moderate and middle income housing developments. Typical construction styles and resulting costs reflect the preferences of affluent home buyers, as well as the outcome of the design review process.

The conventional development of rental apartments is unprofitable at this time. The favorable balance between construction, land,

1. Assumption: Land purchased and financed (80 percent loan to value ratio) immediately prior to the start of construction at an 18 percent interest rate.

and financing costs on one hand, and market rents and tax incentives on the other, no longer exists. The possibility of rent control has a further chilling effect on apartment development in the Bay Area.

As a result, no unsubsidized rental units were constructed in Marin in 1980¹. Moreover, present economic trends indicate that the former favorable balance is unlikely to be restored in the foreseeable future. In the absence of significant new tax incentives or capital and interest subsidies, few, if any, market rent apartments will be developed in Marin between 1981 and 1985. Appendix C, "Hypothetical Apartment Expenses and Revenues", illustrates how major cost and revenue factors in 1981 combined to make investment in apartment construction unattractive.

To develop apartment projects which can offer rents affordable to low income households a "triple subsidy" is required. Land costs must be substantially written down; a permanent financing rate must be provided that does not exceed 11 percent; and rent subsidies must be made available from some governmental source. The only alternative to these conditions is a substantial "up-front" capital grant to reduce total development costs.

It is extremely difficult, although at present not impossible, to produce low income rental housing. The future availability of governmental subsidies at both the federal and state levels is, very much in question. Moreover, legal constraints and high interest rates expected to continue in the bond market limit the potential effectiveness of tax-exempt financing techniques. These factors, when added to the lack of developable land, make the production of affordable housing extremely difficult in Sausalito.

1. "Housing Activity Report No. 3", Association of Bay Area Governments, 1981.

ANTICIPATED IMPACTS

The estimation of program and policy impacts is complicated by uncertainty over the continuation of state and federal housing programs, the private response to public rehabilitation initiatives, and the willingness of the San Francisco Foundation to allocate Buck funds towards housing. The answers to these questions will determine Sausalito's success in producing and retaining affordable housing.

Protection and Improvement of Housing Stock

Condominium Conversion

Much of the conversion potential for larger projects has already occurred in Sausalito. Therefore the impact of stronger conversion controls will be limited. Current data on tenants in rental properties are not available. Therefore, it is difficult to estimate the number of elderly tenants who might benefit from the lifetime lease provision of the proposed conversion ordinance amendment.

There are approximately 200 rental units in larger rental properties of seventeen or more units in Sausalito today. Assuming that all of those properties might apply for conversion approval by 1985, approximately 33 inclusionary units for persons of low and moderate income would be retained.

Housing Rehabilitation

To date only one rehabilitation loan (for two units) has been made to a Sausalito property owner through the County Rehabilitation Loan Program. Current funding exists for subsidized loans through July 1, 1982. With increased City support for program outreach to low income homeowners, 5-10 additional loans might be made to rehabilitate 7-12 units.

HUD has allocated to the Marin County Housing Authority funds for rent subsidies on 43 units in the County to be rehabilitated through the Section 8 Moderate Rehabilitation Program. The maximum rents allowable in the Moderate Rehabilitation Program after rehabilitation are very low in relation to Sausalito rents. However, the City will attempt to encourage owners of less expensive rental properties to participate. Approximately 5-7 units might be rehabilitated through the Moderate Rehabilitation Program, using financing available from the County Rehabilitation Loan Program.

Development of New Low and Moderate Income Housing

Site Acquisition

The maximum unit potential for sites for new affordable housing is listed below. This list assumes availability of necessary below-market financing and government-funded rent subsidies to bring the price of these units within an affordable range. Land costs for the school site would be substantial. The other three sites are now owned free and clear by the City.

<u>Site</u>	<u>Approximate Unit Count</u>
Martin Luther King School	30-40
Civic Center	8-12
Bee Street	3-4
Old City Hall	4-5

Mixed-Use Zoning

It is extremely difficult to estimate the impact of a zoning change which would allow only residential use on the upper floors in commercial areas west of Bridgeway, since little space for new commercial development is available in those commercial zones.

If this zoning change is implemented, an additional 5-10 units might be added by 1985.

Financial Contributions from Commercial Industrial Developers (Housing Mitigation Funds)

City staff estimate an approximate commercial industrial development potential in Sausalito of 400,000 square feet. It is difficult to estimate the total amount of funds which might be generated. It is roughly estimated that this program will yield \$250,000-\$300,000, which would write down land cost for approximately 15-20 units.

Rental Subsidies

The Marin County Rebate for Marin Renters Program presently assists three elderly individuals and one family in Sausalito. By the end of 1981 an additional 10 families (total 14 families) will be participating with funds provided by the Buck Trust (\$10,000) and the City of Sausalito (\$5,000). The City will contribute an additional \$5,000 each year to 1985. Assuming that the Buck two to one match is maintained in the future, an additional 14 families will be assisted each year, making a total of 56 families in 1985.

The County Housing Authority administered Section 8 Existing Program subsidizes the difference between 25 percent of the tenant's income and the market rent for the unit. At present rent for one Sausalito senior citizen is subsidized through this program. Although the maximum market rents subsidized through the Existing Section 8 Program are lower than most Sausalito rents, increased City support for program outreach should increase participation to four or five families.

The following matrix schedules these projections for affordable housing by programs through 1985:

Table 17

SAUSALITO
POTENTIAL AFFORDABLE HOUSING PROGRAM IMPACT

<u>PROGRAM/UNITS</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>Total 1982-1985</u>
<u>Protection & Improvement</u>					
Condominium Conversion	14	9	6	4	33
Housing Rehab	7-12				7-12
Sec. 8 Moderate Rehab (See below)					
<u>New Development</u>					
Site Acquisition	30-40	7- 9	8-12		45-61
Mixed-Use	1-2	2-3	2-3	1-2	5-10
<u>Rental Subsidies</u>					
Rebate for Marin Renters Program	14	28	42	56	56
Section 8	4-5				4-5
Sec. 8 Moderate Rehab	<u>5-7</u>	<u> </u>	<u> </u>	<u> </u>	<u>5-7</u>
 TOTAL ADDITIONAL AFFORDABLE UNITS CREATED	 54-68	 37-40	 52-57	 57-58	 115-139

SUMMARY OF IMPACTS

Sausalito's housing program represents a comprehensive effort to develop and maintain housing affordable to families of low and moderate income.

Economic and site constraints, combined with severe reductions in essential federal and state funding for subsidized housing, are expected to prevent Sausalito from meeting its fair share production target of 27 low income units per year to 1985. Buildable sites are already developed, most with high density, multi-family housing. Fair share production shortfalls would be a product of the severity of these constraints rather than the result of an inadequate affordable housing effort on the part of the City of Sausalito.

CITIZEN PARTICIPATION

The Sausalito Planning Commission held eight public hearings on the Draft Housing Element from October 15, 1980 to October 21, 1981. The City Council held a public hearing and adopted this Element on November 2, 1981.

Copies of the Draft Element were distributed to five community organizations with a housing and community development focus. In addition, several other community groups, including homeowner associations and environmental groups were sent special notices when the public hearing process commenced.

Agendas for each of the planning commission meetings were noticed in the Marin Scope preceding each meeting.

APPENDIX A
FAIR SHARE TECHNICAL NOTES

Methods to derive fair share estimates are summarized as follows:

Fair Share Allocation

Existing households were added to anticipated new households and multiplied by 34 percent (HCD adjusted allocation) to determine the total number of low income households that should be affordably housed in Sausalito in 1985. (Existing and anticipated units were multiplied by .984 occupancy rate to determine households.)

Existing Market Rental Units Affordable to Low Income Households in 1985

The 1979 Marin County Housing Element estimated that 150 market rental units will be affordable to low income renters in Sausalito in 1985. Added to this number are the estimated 85 low income households now living in the waterfront area, as estimated by the recent Art Zone survey (see page 28).

Existing Ownership Units Owned by Low Income Households in 1985

This figure aggregates several assumptions:

1. The number of low income, elderly homeowners living in affordable units in 1985 will be 115, derived as follows:
 - a. The number of elderly in the 1981 population is assumed to be approximately the same as in 1970.
 - b. The 1981 mean household size for elderly persons is estimated at 1.4.

- c. Using the results of the 1979 City survey of elderly households as a rough indicator, the owner occupancy rate for elderly households is estimated at 65 percent.
 - d. Again using the results of the City survey as a rough indicator, half of the elderly homeowner households are estimated to be low income.
 - e. Turnover is assumed to reduce that number by 3 percent per year to 1985.
2. The number of low income, non-elderly owner occupants in 1985 will be approximately 350, derived as follows:
- a. The 1981 owner occupancy percentage for non-elderly households was assumed to be 40 percent.
 - b. The 1981 percent of non-elderly owner occupants who are low income was assumed to be 25 percent, and all are assumed to be paying 25 percent of income or less for housing. These low income homeowners are assumed to have occupied their homes for several years, since it is financially unlikely that they purchased homes in Sausalito in the past ten years. (See Housing Problems Section.) Therefore their mortgage payments are relatively low and housing costs likely to be within 25 percent of current income.
 - c. Turnover is assumed to reduce that number by three percent per year to 1985.

APPENDIX B

PERMIT COSTS IN SAUSALITO

- o Permit costs can vary substantially from site to site depending on site conditions, location, and the type and design of development. In estimating a "minimum" cost to a developer to go through the local permit process in Sausalito, only the basic permits required of all developments were considered. While these figures can give a general indication of permit process expense, it should be noted that the "minimum" cost estimated would probably never be realized by a developer for the following reasons:
 - 1. Much of the remaining developable land is subject to moderate to severe environmental constraints, such as steep slopes and drainage problems. Careful soils engineering and design studies, reviews and associated permits will be required on a site to site basis.
 - 2. Some remaining developable parcels in Sausalito are very small infill sites suitable for single family residential units. Many of these sites, however, were originally subdivided into lot sizes or put into zoning classifications that are inconsistent with residential development. In these situations, variances or conditional use permits may be required.

Scenarios

Given the aforementioned considerations, minimum permit cost estimates are discussed herein for two types of residential development, a condominium and a single family unit, on level land. A major portion of the permit fees, however, is charged by the Marin Municipal Water District for a water hookup.

Home A: is a 1,500 square foot family detached 3 bedroom, 2 bath unit.

Home B: is one of four 950 square foot attached 2 bedroom 1-1/2 bath condominiums.

Table 16 shows the approximate costs associated with the various Sausalito required permits.

It is assumed that the total valuation¹ upon which building permits are based, for the single family is: 1,500 square feet @ \$65/square foot = \$97,500; for condominium: 950 square feet @ \$60/squarefoot = \$57,000.

1. Total valuation is defined as the total value of the improvements or the construction costs. They do not include land acquisition or finance costs.

Table B

APPROXIMATE PERMIT COSTS
RESIDENTIAL DEVELOPMENT SAUSALITO

<u>Permit</u>	<u>Single Family</u>	<u>Condominium B</u>
Building Permit	\$ 427	\$ 304
Plan Checking	278	198
Electrical	20	20
Plumbing	30	30
Heating/Cooling	16	16
Construction Tax	300	300
Energy Plan Check	20	20
Earthquake Fee	7	4
Plan Retention ¹	5	5
Sewer Use (Connection)	800	800
Water: Installation Connection Fee ²	1,800	1800
Design Review	25	25
Zoning Permit	<u>30</u>	<u>30</u>
 TOTAL	 \$ 3,758	 \$ 3,552

1. Based on minimum 5 pages.

2. This ranges considerably from parcel to parcel, based on the historic water usage. MMWD estimates a range from \$700-\$2,900 per unit. The mean is used for the purposes of this example (\$1,800/unit).

APPENDIX D

§ 883.309 Site and neighborhood standards.

Proposed sites must meet the standards in this section.

(a) *New Construction or Substantial Rehabilitation Projects.* (1) Adequate utilities (water, sewer, gas and electricity) and streets will be available to service the site.

(2) The site and neighborhood shall be suitable from the standpoint of facilitating and furthering full

compliance with the applicable provisions of Title VI of the Civil Rights Act of 1964, Title VIII of the Civil Rights Act of 1968, Executive Order 11003, and HUD regulations issued pursuant thereto.

(3) The site must promote greater choice of housing opportunities and avoid undue concentration of assisted persons to areas containing a high proportion of low-income persons.

(4) The site must be free from serious, adverse environmental conditions, or there shall be evidence that any such conditions will be corrected by the time the housing is completed. (For new construction projects, see paragraph (b)(3) of this section.)

(5) The site must comply with any applicable conditions in the Local Housing Assistance Plan approved by HUD if applicable under § 883.206.

(6) The housing must be accessible to social, recreational, educational, commercial, and health facilities and services and other municipal facilities and services that are at least equivalent to those typically found in neighborhoods consisting largely of unassisted, standard housing of similar market rents.

(7) Travel time and cost via public transportation or private automobile from the neighborhood to places of employment providing a range of jobs for lower-income workers, must not be excessive. (While it is important that elderly housing not be totally isolated from employment opportunities, this requirement need not be adhered to rigidly for such projects.)

(8) The project may not be on a site which has occupants unless the relocation requirements referred to in § 883.311 are met.

(9) The project may not be in an area that has been identified by HUD as having special flood hazards and in which the sale of flood insurance has been made available under the National Flood Insurance Act of 1968, unless the project is covered by flood insurance as required by the Flood Disaster Protection Act of 1973, and it meets any relevant HUD standards and local requirements.

(b) *New Construction Projects Only.*

(1) The site must be adequate in size, exposure and contour to accommodate the number and type of its units proposed.

(2) The site must not be located in: (i) An area of minority concentration unless (A) sufficient, comparable opportunities exist for housing of minority families, in the income range to be served by the proposed projects, outside areas of minority concentration; or (B) the project is necessary to meet

overriding housing needs which cannot otherwise feasibly be met in that housing market area. An "overriding need" may not serve as the basis for determining that a site is acceptable if the only reason the need cannot otherwise feasibly be met is that discrimination on the basis of race, color, religion, creed, sex, or national origin renders sites outside areas of minority concentration unavailable, or

(ii) A racially mixed area if the project will cause a significant increase in the proportion of minority to non-minority residents in the area.

(3) The site must be free from adverse environmental conditions, natural or manmade, such as instability, flooding, septic tank backups, sewage hazards, or mudslides; harmful air pollution, smoke or dust; excessive noise vibration or vehicular traffic; rodent or vermin infestation; or fire hazards. The neighborhood must not be one which is seriously detrimental to family life or in which substandard dwellings or other undesirable elements predominate, unless there is actively in progress a concerted program to remedy the undesirable conditions.

APPENDIX C

Table C

HYPOTHETICAL APARTMENT EXPENSES AND REVENUES¹

Scheduled Annual Revenues

50 2-bedroom units @ \$600/month	
x .95 occupancy rate	\$ 360,000
Effective Gross Income	342,000

Operating Costs²

30% of Effective Gross Income	\$ 102,600
Net Operating Income	239,400
Minus Debt Service	-422,876
Cash Flow	\$ (-183,474) ³

CASH FLOW	\$ (-183,474)
+ TAX ADVANTAGE ⁴	\$ 176,229

YEAR ONE AFTER TAX CASH FLOW	\$ -7,245)
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1. Development Assumptions:

Costs:

Land - 2.5 acres x \$8/sq. ft. =	\$ 871,200
Construction - 50 units x 950 sq. ft. x \$55/sq. ft.	2,612,500
TOTAL	\$ 3,483,700

Financing:

Equity:	20% - \$696,740
Permanent Loan:	15% Interest, 30-Yr. Term,
	Principal: \$2,786,960.

2. Excludes reserves for replacement.

3. Most lenders insist on a minimum 1.2 debt coverage ratio and would therefore never underwrite such a loan. At a 15% interest rate a lender would therefore refuse to finance more than \$1.4 million. The remaining equity requirement of over \$3,000,000 would be far too high for the return on capital generated.

4. Income Tax Advantage for Investor in 50% Tax Bracket

Net operating income	\$ 239,400
- Depreciation	174,167
- Interest on permanent loan	417,691
Total Tax Loss	(-352,458)
Tax Advantage to Investor	\$ 176,229

